

MTC SALES TAX SIMPLIFICATION PLANNING COMMITTEE

LIST OF SIMPLIFICATION IDEAS WITH EXPLANATIONS

COMPLIANCE SIMPLIFICATION

EXEMPTION PROCESSING

Each state has a web site that contains a list of all exempt customers and their respective registration numbers; includes Direct Pay Permit holders; once established eliminate the need for all businesses from having non-profit exemption certificates and eases verification of status of exemption in each state.

Acceptance by all states of uniform multijurisdiction exemption certificates. List of states that do not currently accept (*e.g.*, IN, LA, MA, NJ, NM, NY, VA).

Uniform date of expiration of exemption from time of issuance: First preference is to have no expiration date; however if state has a 5 year recertification process and advises taxpayers of businesses that fail to requalify that seems appropriate as well.

TAX RETURNS

Home Rule Issues

Uniform returns for all jurisdictions within a state including format, descriptions, information requested and placement of information.

Eliminate home rule jurisdiction reporting such that the state would administer all county, city and special district reporting by utilization of one return covering both state and sub-state reporting.

Require all jurisdictions within the state to use the same taxable base and exemptions as the state.

General

Eliminate returns by type (categories *e.g.*, rentals, consumer use) so that only one return is necessary for the reporting jurisdiction.

Eliminate returns and reconcile payments periodically; payments made monthly or quarterly with annual reconciliation to jurisdiction reporting requirements. [MTC #6]

Filing less frequently (annually, quarterly) with minimum threshold.

Allow consolidated returns for affiliated corporations so that sales tax for all affiliated corporations could be filed on one return under one account number in each state.

Allow for agents of company to file tax returns.

OTHER COMPLIANCE ACTIVITY

Allow meaningful vendor discounts without maximums for a reporting period or for annual reporting or exclusions by type of industry.

Provide multiple registration process at national level that includes forms provision as well as an ability to file one stream of information and selection of all or selected states. [MTC #15, 24]

Uniform registration requirements (until above multiple registration is achieved) by having the same stream of information required for each state. For example, availability on a web site of the multi-jurisdiction form and select states in which registration is desired and each state will receive e-mail of registration information for assignment of account #.

Tax application at national level; statewide rates only; rates at state level or zip code only. Allow varying flexibility of revenue raising depending upon which of the aforementioned is chosen yet provide simplification via tax boundaries that taxpayers have ready access to such as state boundaries or zip code boundaries.

Limit tax changes to annual; certain date per year; require 3 month notification. Notification and limits to tax rate changes provide simplification of tax systems and equally important reduce vendor customer interaction surrounding taxes on bills.

Reduce instances of non-taxable t.p.p. (retail exemptions) and reduced or special rate treatment for selected products or invoice amounts.

Standard situs for taxable t.p.p transactions (*e.g.*, destination origination)

POLICY SIMPLIFICATION

All states should adopt a uniform cost basis for self manufactured goods.

States should all allow bad debt deductions and adopt a uniform methodology such as monthly deduction of bad debt write-offs. The process in some states is too complex to be practical (*e.g.*, Massachusetts).

The MTC should lead the states to develop a uniform sales tax code. The uniform sales tax code would also include a section of uniform exemptions.

All states should adopt provisions to allow companies to obtain direct pay permits. The states should adopt uniform rules and procedures in connection with direct payment permits.

States are encouraged to consider the adoption of uniform requirements concerning the definition of services, discounts and trade-ins. The uniform treatment should include uniform taxability of discounts and trade-ins. This process has already begun with respect to procurement cards and procedures for the collection and remittance of sales and use tax on fundraising sales.

The MTC should conduct a study to determine what laws states currently have in common and then encourage other states to adopt these common statutes.

States should allow taxpayers to enter into agreements with the states to use effective tax rates for the remittance of use tax based on uniform sampling techniques and/or prior audit results.

States should allow taxpayers on a national level to actively participate in future state policy developments through a Policy Development Process Forum. For example, the efforts that have been made to date on prepaid calling cards, procurement cards and FDI standards. Another possibility is adoption of error disclosure standards that are similar to federal guidelines outlined in Revenue Procedure 94-69.

The Simplification Committee encourages existing efforts to develop nexus standards that are uniform for tax collection and remittance purposes. This will not only assist companies in understanding the nexus consequences of their activities in multiple states, but will also assist state auditors with their nexus determinations. A *de minimis* threshold for sales tax nexus should be established that is adopted by all states to prevent taxpayer confusion and simplify compliance.

The situs of sales taxes for services should uniform throughout the U.S.

Interstate shipments of goods should receive uniform sales tax treatment (*e.g.*, “first use” should be defined consistently in all states).

States should adopt definitions and treatment of drop shipments.

AUDITS AND APPEALS

Auditor Training Develop a training program which would provide educational opportunities in audit fundamentals. Potential topics would include sample selection, statistical sampling, research methods, documentation standards, *etc.*

Computer Assisted Auditing Develop standards for the application of computer assisted audit methodologies which will produce reliable audit results for both assessments and refunds. These methodologies should be able to effectively process varying types of records such as standard electronic transactional records, P-card transactions, EDI transactions, ERS transactions, *etc.* This process should produce a statistically valid result. (*See statistically sound uniform sampling methodologies below.*)

Audit Procedures for Procurement Cards Develop a uniform process for the audit of procurement card transactions which could be adopted by every tax jurisdiction. This process would also specify minimum documentation standard to effectively demonstrate tax compliance for these transactions.

Uniform Statute of Limitations Develop a uniform statute of limitations statute which every tax jurisdiction would have the opportunity to adopt. This would include a uniform methodology for the state and the taxpayer to agree to the waiver of the statute of limitations. The uniform statute of limitation would apply equally to assessments and refunds.

Uniform Dispute Resolution and Appeals Process Develop a uniform dispute resolution and appeals process which each tax jurisdiction could adopt. This process should be independent of both the taxpayer and the tax agency charged with the administration of the tax. It should provide for uniform filing deadlines, documentation standard, *etc.*

Managed Audits Develop a standardized program of managed audits in which the taxpayer and jurisdictional auditor agree on the process which will be used to determine the audit liability or refund, the audit will be actually conducted by representatives of the taxpayers and then the results will be reviewed by the jurisdictional auditor for final assessment or refund.

Statistically Sound Uniform Sampling Methodologies Develop a uniform statistically valid sampling process which can be used in sales and use tax audits to determine additional tax due from a taxpayer or tax to be refunded to the taxpayer. This process would

include a methodology to produce statistically sound stratifications of populations, sample sizes, isolated transaction handling, and projection methods.

Shifting of Burden of Proof for Negligence Penalties from Taxpayer to the States Develop a uniform standard of evidence which would be required to support the application of negligence penalties. The burden of proof for the production of this evidence would rest with the taxing jurisdiction.

Penalties Based Upon Facts and Circumstances Rather than Imposed out of Routine Develop a uniform statute for adoption by the tax jurisdictions, which would only allow for the imposition of penalties based on the facts and circumstances surrounding the underpayment of tax rather than the automatic application of penalties in which an underpayment exists.

Uniform Refund Claim Process Develop a process for the uniform treatment of refund claims to be adopted by tax jurisdictions. This process would include a standard for who is eligible to file refund claims, filing deadlines, documentation standards, standardized forms, response deadlines, etc.

EDUCATION AND COMMUNICATION

Encourage and expand existing taxpayer information sessions among the states and provide easy access to taxpayer information and updates via modern forms of communication such as Tax Bulletin Boards for each state.

Establish State simplification steering committees